

**TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0568**  
"Changes to Commercial Arrangements in the event of a Network Gas Supply Emergency"  
Version 1.0

**Date:** 24/07/2002

**Proposed Implementation Date:** 01/10/2002

**Urgency:** Non-Urgent

**Justification**

The Gas Industry Emergency Committee (GIEC) has recommended changes to the emergency procedures that would enable normal commercial balancing arrangements to remain in place during a specific type of Gas Supply Emergency. To enable this, the text of Network Code Section Q needs to be amended in a manner that is consistent with these proposed changes to the emergency procedures.

Whilst this Proposal has been submitted by Transco, the principles have been developed and agreed unanimously by the Commercial Market Implications Workgroup of GIEC. The principles have also received the unanimous support of the Planning and Security (including Storage) Workstream.

Transco also planned an exercise to simulate a Gas Supply Emergency to be held in September 2002. For this exercise to be valid, Users must be given the opportunity to implement their own procedure changes arising from the revision to emergency procedures associated with this Modification Proposal. Transco intends that the emergency procedures should be issued to Users during the week commencing 12 August 2002 and a decision on this Proposal would be required prior to this date.

**Nature of Proposal**

It is proposed that for the two types of Network Gas Supply Emergency defined in the Network Emergency Co-ordinator's Safety Case, different Network Code arrangements would apply:

For a Network Gas Supply Emergency Gas Deficit Emergency (GDE), the present provisions of Section Q 4.1 would continue. These include suspension of gas trading on the On the Day Commodity Market (OCM).

For a Network Gas Supply Emergency Critical Transportation Constraint Emergency (CTCE), commercial system and User balancing arrangements such as OCM trading would continue to apply throughout the emergency.

In respect of the relevant cash-out prices applied to Users' imbalances, it is proposed that:

In the event of a GDE, the emergency cash-out price would be set to twice the arithmetic mean of the System Average Prices for the immediately preceding 30 days. This is twice its present value.

In the event of a CTCE, normal arrangements would apply and there would therefore be no requirement to set a price based upon the previous 30 days' prices.

In respect of claims for financial loss it is proposed that:

In the event of a GDE, claims for financial loss (existing paragraph Q4.2.5) would be subject to the following principles:

Allowed costs should be based on an appellant's total costs and not the cost of an individual source;

Intra-group transfers should be deemed to be made at market price;

“Windfall gains” should be netted off wherever possible;

Reasonable administrative/legal costs of making a claim should be allowed, but subsequent costs of pursuing a claim should not be; and

These costs should be limited to 5% of the net claim;

In the event of a CTCE, the same principles would apply but, in addition, claims would only be considered in respect of gas withdrawn from storage as a result of NEC actions.

In parallel with this Proposal, Transco will be submitting material proposals for the revision of the NEC Safety Case and be proposing changes to its emergency procedures. It is recognised that this Proposal should not be implemented if these revisions were not approved by HSE.

### **Purpose of Proposal**

The benefits of implementing the Proposal arise from commercial balancing arrangements remaining in force throughout an emergency. During a period of suspension of commercial arrangements, the efficiency benefits arising from these arrangements would not apply. Implementation of this Proposal would therefore be consistent with the efficient discharge of Transco's obligations as licensee in respect of emergencies. For the same reason, implementation would also be consistent with the efficient operation of Transco's pipe-line system and with securing effective competition between relevant shippers and suppliers.

### **Consequence of not making this change**

The benefits identified by GIEC would not be achieved and for both types of emergency, normal commercial arrangements would be suspended for the duration of that emergency.

### **Area of Network Code Concerned**

Section Q

### **Proposer's Representative**

John J Bradley (Transco)

### **Proposer**

Tim M Davis (Transco)

**Signature**

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